

Message Text

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ACTION EB-07

INFO OCT-01 EA-10 ISO-00 IO-10 PA-02 PRS-01 FEA-01 AGR-10

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INT-05 L-03 LAB-04 NSAE-00 NSC-05 AID-05 CIEP-02

SS-15 STR-04 TAR-01 TRSE-00 USIA-15 SP-02 OMB-01 /115 W

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R 040757Z AUG 75

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 9534

INFO AMEMBASSY BANGKOK

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMCONSUL HONG KONG

AMCONSUL MEDAN

AMCONSUL SURABAYA

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E.O. 11652: N/A

TAGS: EIND, EFIN

SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 165596

1. INDONESIA'S SECOND FIVE-YEAR PLAN CALLS FOR A CONTINUED LARGE ROLE BY PRIVATE FOREIGN INVESTORS. FOREIGN INVESTMENT IS TO SUPPLEMENT WHERE DOMESTIC INVESTMENT IS STILL INADEQUATE.

2. THE CONSTITUTION AND LAWS VEST SUB-SOIL RESOURCE OWNERSHIP IN THE STATE AND LIMIT FOREIGN ACTIVITIES IN OIL AND MINING TO CONTRACTS OF WORK OR PRODUCTION SHARING. THE FOREIGN AND DOMESTIC INVESTMENT LAWS OF 1967 AND 1968 ESTABLISH PROCEDURES AND INCENTIVES IN ALL OTHER
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SECTORS. INDONESIA PROVIDES GENERALLY ATTRACTIVE INVEST-

MENT INCENTIVES BUT DOES NOT YET HAVE PROGRAMS TO PROMOTE AND FACILITATE PRIVATE INVESTMENTS FOUND IN OTHER SEA COUNTRIES. PROJECT APPROVAL AND IMPLEMENTATION PROCEDURES ARE SLOW AND CUMBERSOME. (SEE RECENT DEVELOPMENTS.)

3. GENERAL ECONOMIC POLICIES ARE FAVORABLE TO INVESTMENT. INDONESIA HAS NO FOREIGN EXCHANGE RESTRICTIONS AND MINIMAL TRADE LIMITATIONS. IT REQUIRES NEITHER IMPORT NOR EXPORT LICENSES. INDONESIA HAS ACHIEVED MODERATE ECONOMIC GROWTH, DRAMATIC EXPORT AND FOREIGN EXCHANGE GAINS (ESPECIALLY OIL), IMPRESSIVE ECONOMIC AID AND FOREIGN AND DOMESTIC INVESTMENT LEVELS AND REASONABLE PRICE STABILITY (INFLATION, HOWEVER, IS NOW RUNNING ABOUT 20 PERCENT PER YEAR).

4. TAX AND OTHER INCENTIVES FAVOR MAINLY LABOR-INTENSIVE, EXPORT-ORIENTED, AND DOMESTIC RESOURCE-PROCESSING INDUSTRIES AS WELL AS LOCATION OUTSIDE JAKARTA AND WEST JAVA. SPECIAL REQUIREMENTS APPLY TO LOCAL PROCUREMENT ONLY IN UNUSUAL CASES SUCH AS VEHICLE MANUFACTURING.

5. WHILE EXCEPTIONS ARE MADE, THE GOVERNMENT NOW GENERALLY REQUIRES AT LEAST 15-20 PERCENT LOCAL PARTICIPATION, INCREASING TO 51 PERCENT WITHIN TEN YEARS. PRESIDENT SUHARTO ON JANUARY 22, 1974, CALLED FOR ACCELERATED LOCAL PARTICIPATION AND ULTIMATE MAJORITY OWNERSHIP OF ALL BUSINESSES BY ETHNIC INDONESIANS. GOVERNMENT ENTERPRISES PLAY A GROWING ROLE. THE GOVERNMENT IS EXPANDING STATE EQUITY IN UPSTREAM PROCESSING OF BASIS RESOURCES, BUT PERMITTING JOINT STATE/FOREIGN VENTURES AND FOREIGN EQUITY IN SEMI-FINISHED AND FINISHED PRODUCTION AND EXPORT.

6. THE U.S. IS INDONESIA'S LARGEST FOREIGN INVESTOR, WITH ABOUT \$2.0 BILLION INVESTED, INCLUDING OIL AND MINING. EXCLUDING THESE, APPROVED U.S. INVESTMENT OF \$507 MILLION IS SECOND TO JAPAN (\$1,142 MILLION) BUT AHEAD OF HONG KONG (423 MILLION). OPIC CONDUCTS ONE OF ITS MOST ACTIVE INVESTMENT INSURANCE PROGRAMS IN INDONESIA. USG/GOI HAVE REACHED AGREEMENT ON MOST PROVISIONS OF A DOUBLE TAX UNCLASSIFIED

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TREATY.

7. RECENT DEVELOPMENTS. IN 1974, TO RESPOND MORE EFFECTIVELY TO DOMESTIC BUSINESS INTERESTS, THE GOVERNMENT INTRODUCED NUMEROUS MEASURES TO ENCOURAGE GREATER PARTICIPATION BY ETHNIC INDONESIANS, TO ACCELERATE INDONESIANIZATION OF STAFFING AT ALL LEVELS IN FOREIGN INVESTMENT PROJECTS, AND TO INCREASE INDONESIA'S SHARE

OF RESOURCE INVESTMENT RETURNS. THESE HAVE BEEN
UNSETTLING TO FOREIGN INVESTORS. DIFFICULTIES OF DOING
BUSINESS HAVE ALSO INCREASED APPRECIABLY--BUREAUCRATICALLY,
IN TERMS OF PORT CONGESTION, AND IN RAPID PROJECT COST
INFLATION.

8. OBSERVERS EXPECT PROLONGED UNCERTAINTY AS RESULT OF
FACTORS NOTED ABOVE, FOLLOWED BY GRADUAL
REASSERTION OF INDONESIA'S PRAGMATIC INTEREST IN ATTRACTING
FOREIGN INVESTMENT. OVER TIME, FLEXIBILITY IN APPLICATION
OF THE MAJORITY OWNERSHIP AND OTHER LIMITATIONS IS EXPECTED
IN INVESTMENT SECTORS HAVING HIGH GOVERNMENT PRIORITY.
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